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ORIGIN EUR-03

INFO OCT-01 ISO-00 /004 R

66617

DRAFTED BY: EUR/RPE:JTMCCARTHY

APPROVED BY: EUR/RPE:JTMCCARTHY

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FM SECSTATE WASHDC

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ATHENS FOR ASST SECY HARTMAN PARIS FOR UNDER SECY ROBINSON

FOLLOWING REPEAT EC BRUSSELS 2137 SENT SECSTATE INFO
JERUSALEM DATED MAR 11.

QUOTE

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JERUSALEM PASS SECRETARY KISSINGER

DEPARTMENT PASS AGRICULTURE FOR SECRETARY BUTZ, TREASURY FOR
SECRETARY SIMON AND STR

E.O. 11652: N/A

TAGS: EAGR, ETRD, EEC

SUBJECT: CHEESE AND COUNTERVAILING DUTIES

1. BEGIN SUMMARY: AFTER AN EXTENSIVE DISCUSSION DURING WHICH TREASURY
ASSISTANT SECRETARY MACDONALD EXPLAINED THE POLITICAL SITUATION AND
DECISIONS WHICH HAD BEEN TAKEN IN THE UNITED STATES, AND IN WHICH
SOAMES AND LARDINOIS EXPRESSED DEEP CONCERN OVER THE EFFECT ON TOTAL
US/EUROPEAN RELATIONS OF US COUNTERVAILING DUTIES ON CHEESE, SOAMES
SUMMED UP THE EC POSITION AS FOLLOWS: (1) THE COMMISSION HOPES THE
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ADMINISTRATION WILL USE THE DISCRETIONARY PROVISIONS OF THE TRADE

ACT TO AVOID COUNTERVAILING; (2) THE CONSEQUENCES OF COUNTERVAILING WOULD BE EXTREMELY GRAVE WITH UNFORESEEABLE CONSEQUENCES; (3) THE COMMISSION DOES NOT CONSIDER THAT FURTHER TALKS UNDER A MARCH 21 DEADLINE WOULD BE USEFUL; AND (4) THE COMMISSION WOULD BE PREPARED TO CONTINUE TALKS IN WASHINGTON IF THE SPECIFIC DATE IS NOT USED AS A THREAT AND IF THE DISCUSSION IS ON ECONOMIC IMPACT AND NOT PRINCIPLE. ASSISTANT SECRETARY MACDONALD AGREED TO TAKE SOAMES' PROPOSAL BACK TO WASHINGTON. END SUMMARY.

2. ON MARCH 11, TREASURY ASSISTANT SECRETARY MACDONALD HELD TWO MEETINGS WITH OFFICIALS OF THE EUROPEAN COMMUNITIES, ONE AT THE OFFICIAL LEVEL AND A SECOND WITH COMMISSIONERS SOAMES AND LARDINOIS AT WHICH RABOT, FIELDING, HANNAY AND AMBASSADOR GREENWALD WERE PRESENT. DURING THESE MEETINGS, THE US AND COMMUNITY POINTS OF VIEW WERE SET FORTH IN GREAT DETAIL.

3. ASSISTANT SECRETARY MACDONALD SAID THAT THE UNITED STATES HAD MADE A DECISION TO ANNOUNCE COUNTERVAILING DUTIES ON MARCH 21 UNLESS THE COMMUNITY AGREED PRIOR TO THAT DATE TO SUSPEND AGAIN ITS EXPORT SUBSIDIES ON CHEESE. THE US AND THE COMMUNITY COULD DISCUSS THE POSSIBILITY OF FINDING A WAY TO USE THE DISCRETIONARY AUTHORITY IN THE TRADE ACT, BUT THE US COULD NOT AVOID COUNTERVAILING UNLESS THE SUBSIDIES WERE SUSPENDED BEFORE MARCH 21. MACDONALD EXPLAINED THAT PART OF THE REASON FOR THE US DECISION WAS THE HEAVY POLITICAL PRESSURE BEING BROUGHT BY CONGRESS AND THE DAIRY INDUSTRY, WHICH IS IN ECONOMIC SHAMBLES. COMMITMENTS MADE BY THE PRESIDENT AT SIOUX CITY AND BY MACDONALD HIMSELF DURING THE PASSAGE OF THE TRADE ACT MADE IT IMPOSSIBLE TO EXERCISE THE DISCRETION IN THE TRADE ACT AGAINST THE OPPOSITION OF THE CONGRESS AND THE DAIRY INDUSTRY. THE COMMUNITY ANNOUNCED IN EARLY FEBRUARY REINSTITUTION OF THE EXPORT SUBSIDIES IN SPITE OF THE FACT THAT THE US HAD REQUESTED THE EC TO DELAY REINSTITUTION UNTIL IT HAD PROVIDED MAJOR DETAILS, WHICH HAD BEEN SOUGHT BY US DAIRY INTERESTS. THIS ACTION HAD POLARIZED THE ISSUE IN THE UNITED STATES AND MADE IT IMPOSSIBLE TO PERSUADE THE US DAIRY INDUSTRY TO GIVE THE NEW SYSTEM A TRY.

4. SOAMES RESPONDED THAT SECRETARY KISSINGER HAD RAISED THE ISSUE IN JULY AND ASKED THE COMMUNITY TO HANDLE IT GENTLY. LIMITED OFFICIAL USE

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DESPITE GREAT POLITICAL DIFFICULTY WITH THE MEMBER STATES, THE COMMISSION ATTEMPTED TO DO THIS IN THE HOPE THAT ITS EFFORTS WOULD BE RECOGNIZED AND THAT THE NEW US TRADE ACT WOULD GIVE THE US THE POWER TO USE DISCRETION ON COUNTERVAILING DUTIES. THE COMMISSION NOW EXPECTS THE UNITED STATES TO EXERCISE THIS PROVISION OF THE LAW. THE COMMISSION HAD THE IMPRESSION THAT THE UNITED STATES WOULD ALSO BE WILLING TO TAKE A POLITICAL RISK. BY FAILING TO EXERCISE THE DISCRETION WHICH IT HAS, THE

ADMINISTRATION IS CONVERTING A DOMESTIC POLITICAL ISSUE INTO AN INTERNATIONAL POLITICAL ISSUE, WHOSE CONSEQUENCES HE COULD NOT PREDICT BUT WHICH WOULD TRANSCEND THE IMMEDIATE ISSUE. HE FELT THAT WHAT IS AT STAKE IS THE WHOLE RELATIONSHIP BETWEEN THE UNITED STATES AND THE COMMUNITY. HIS CONVERSATIONS WITH AMERICAN OFFICIALS, INCLUDING SECRETARY KISSINGER AND STR EBERLE AND MALMGREN, HAD LED HIM TO BELIEVE THAT THE US WOULD MAKE A POLITICAL EFFORT. LARDINOIS STATED THAT HE HAD DISCUSSED THIS ISSUE SEVERAL TIMES WITH SECRETARY BUTZ, WHO HAD SAID HE THOUGHT THE MATTER COULD BE WORKED OUT. IN THE LATEST CONVERSATION ON FEBRUARY 8, SECRETARY BUTZ SAID HE SAW NO MAJOR DIFFICULTY IF THE COMMUNITY DID NOT INCREASE ITS CHEESE EXPORTS TO THE US. LARDINOIS REPLIED THAT OTHER FACTORS (HIGHER DAIRY PRICES IN THE EC AND THE FALL OF THE DOLLAR) MIGHT OUTWEIGH THE TRADE IMPACT OF THE NEW REDUCED SUBSIDIES. THEREFORE, EC EXPORTS TO THE US WOULD NOT INCREASE.

5. BOTH SOAMES AND LARDINOIS SAID THAT IF THE MATTER IS TREATED AS A MATTER OF PRINCIPLE, THERE IS NO SOLUTION. LARDINOIS ADDED THAT IF THE MATTER IS ONE OF PRINCIPLE IT CONSTITUTES AN ATTACK ON THE CAP, WHICH THE COMMUNITY COULD NOT TOLERATE. IT CANNOT ACCEPT THE US'S TELLING THE EC WHAT KIND OF AGRICULTURAL POLICY TO FOLLOW. FURTHERMORE, US AGRICULTURAL TRADE IS MORE IMPORTANT THAN THAT OF THE COMMUNITY, AND THE US THEREFORE HAS MORE TO LOSE IN THE CASE OF A TRADE WAR. HE SAID THAT BOTH HE AND SOAMES HAD GONE TO GREAT LENGTHS TO BUILD GOOD RELATIONS WITH THE UNITED STATES, BUT THAT THE UNITED STATES, IN IMPOSING COUNTERVAILING DUTIES ON CHEESE WILL HAVE GRAVELY DAMAGED THE COMMISSION'S CREDIBILITY WITH THE MEMBER STATES. THEY HAD BEEN WARNED BY THE MEMBER STATES NOT TO SUSPEND THE SUBSIDIES IN ORDER TO TRY TO ACCOMMODATE THE US BUT THEY HAD NOT LISTENED TO THE WARNINGS.

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6. ASSISTANT SECRETARY MACDONALD SAID THAT THE ADMINISTRATION, INCLUDING SECRETARY SIMON, WOULD BE HAPPY TO HAVE A TEAM COME TO THE UNITED STATES TO DISCUSS THIS MATTER. SOAMES RESPONDED THAT SUCH A TEAM MIGHT BE USEFUL IN DISCUSSING PARTICULARS, BUT IF THE DISCUSSION IS TO BE PURELY ON THE BASIS OF PRINCIPLE, THERE IS NOT POINT IN SENDING THE GROUP.

7. AFTER A SHORT RECESS IN WHICH THE EC SIDE CONFERRED, SOAMES SAID THAT THE COMMUNITY IS COUNTING ON THE ADMINISTRATION TO USE THE DISCRETIONARY PROVISIONS OF THE LAW. IT ASKS THE ADMINISTRATION NOT TO HOLD OVER THE COMMUNITY AN ARTIFICIAL DATE OF MARCH 21 FOR THE ANNOUNCEMENT OF COUNTERVAILING DUTIES UNLESS THE RESTITUTIONS ARE SUSPENDED. HE SAID THAT THE COMMISSION WOULD NOT BE WILLING TO SEND A TEAM TO WASHINGTON TO DISCUSS ONLY PRINCIPLE SINCE A DISCUSSION OF

PRINCIPLE COULD ONLY LEAD TO A STALEMATE, BUT THAT IF THE UNITED STATES FELT IT WOULD BE PRODUCTIVE, THEY WOULD BE PREPARED TO SEND A TEAM TO DISCUSS ECONOMICS, FIGURES, PRICES, ETC., AND TO LOOK AT CASES OF PROBLEM AREAS. THERE WOULD BE NO COMMITMENT ON EITHER SIDE. ASSISTANT SECRETARY MACDONALD SAID THAT HE WOULD CONVEY THIS MESSAGE TO WASHINGTON AND SEND BACK A RESPONSE THROUGH THE MISSION.

8. THE GROUP AGREED THAT IN DISCUSSING THIS ISSUE WITH THE PRESS, NEITHER SIDE WOULD MAKE ANY COMMENT ON THE SUBSTANCE OF TODAY'S DISCUSSIONS. GREMNWALD UNQUOTE INGERSOLL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CHEESE, DAIRY PRODUCTS, COUNTERVAILING DUTIES
Control Number: n/a
Copy: SINGLE
Draft Date: 11 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE054445
Document Source: CORE
Document Unique ID: 00
Drafter: EUR/RPE:JTMCCARTHY
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750085-0614
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750361/aaaacczp.tel
Line Count: 180
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 15 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 APR 2003 by ShawDG>; APPROVED <19 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CHEESE AND COUNTERVAILING DUTIES
TAGS: EAGR, ETRD, EEC
To: ATHENS OECD PARIS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006